

THE GEOPOLITICS OF ENERGY PROJECT

# OIL & STATE CAPITALISM

## GOVERNMENT-FIRM COOPETITION IN CHINA AND INDIA

JONAS MECKLING  
BO KONG  
TANVI MADAN



HARVARD Kennedy School

**BELFER CENTER** for Science and International Affairs

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*The Version of Record of this manuscript has been published  
and is available in the Review of International Political  
Economy, published online on October 16, 2015:*

<http://www.tandfonline.com>

DOI:10.1080/09692290.2015.1089303



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OCTOBER 2015



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Design & Layout by Andrew Facini

Cover photo: Transmission pipes at China National Offshore Oil Corp's Zhuhai Processing Terminal, May 31, 2013. (Jonathan E. Shaw / flickr @johnnyshaw / CC BY-NC 2.0)

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Printed in the United States of America

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## Acknowledgements

*This paper was greatly improved by suggestions from Meghan O'Sullivan, Andreas Goldthau, the editors of RIPE, and three anonymous reviewers.*

## ABSTRACT

This paper examines the domestic sources of the internationalization of national oil companies (NOCs) in China and India. It argues that—counter to notions of state-led internationalization—the going abroad of NOCs reflects a pattern of “coopetition,” i.e., the co-existence of cooperation and conflict between increasingly entrepreneurial NOCs and partially supportive and interventionist home governments. In China, the state has predominantly assumed the role of *resource supplier*, rarely stepping in as a *veto player*. In India, the NOC-government relationship has been more adversarial, with the state intervening more often as a *veto player* than its Chinese counterpart and only slowly emerging as a *resource supplier*. These patterns of internationalization can be explained by how two major trends have been playing out in the two countries: (1) the marketization of NOCs, and (2) the reform of the governance of overseas investments. The findings matter to theory and policy. First, they unpack the relational dynamics of business-government relations in hybrid models of capitalism beyond notions of top-down and bottom-up dynamics. Second, our analysis shows that the state intervenes in the international energy strategies of emerging economies as the occasional veto player rather than actively leveraging NOC internationalization for geopolitical goals.

### ***Keywords***

energy; national oil companies; business-government relations; emerging economies; China; India

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*Storage orbs at a Chinese National Offshore  
Oil Company facility in Northern  
China, August 11, 2007*

*Adam Cohn / flickr @adamcohn / CC BY-NC-ND 2.0*







## INTRODUCTION

In July 2012, the Chinese National Offshore Oil Company (CNOOC) bid USD 15 billion for the Canadian oil company Nexen, sparking a vibrant political debate in both Canada and the United States. Proponents of the deal were excited at the prospect of significant capital influx to the economy, whereas critics were concerned about the Chinese state gaining influence in Canada. What was the largest bid of a Chinese national oil company (NOC) to date thus raised the question of why emerging consumer countries are going abroad and who is in the driving seat: state bureaucrats driven by concerns over energy security and global power projection or managers of NOCs driven by commercial interests? Is it a game of political influence or one of market competition?

Given the perceived strategic nature of energy, the interests of states and energy firms are highly intertwined in the internationalization of energy industries. The question of the relative roles of commercial and political rationales in international energy strategies has gained salience again in recent years (Downs 2010, Economy and Levi 2014). Since the mid-1990s, a number of emerging economies—including China and India—have been actively pursuing “going abroad” strategies by acquiring international oil and gas assets. State-owned enterprises—in this case NOCs—have been major vehicles of overseas investments. One line of thought holds that government officials of emerging consumer nations pursue state-driven going abroad strategies in pursuit of the goal of security of supply, with national oil companies as arms of state power (Bremmer 2010a). A different line of thought sees NOCs increasingly following commercial logics and being embedded in the international liberal order (Steinfeld 2010).

This article, however, argues that China and India have both been pursuing a hybrid form of internationalization of their oil industries, as opposed to a primarily state-led or market-driven internationalization. The hybrid pattern of internationalization is characterized by “coopetition,” i.e., the co-existence of cooperation and conflict between increasingly entrepreneurial, profit-driven NOCs pulling to global markets and partially supportive and interventionist home governments. In China, the state has predominantly assumed the role of

*resource supplier* for the going abroad of NOCs, only rarely stepping in as a *veto player*. In India, the NOC-government relationship has been more adversarial, with the state intervening more often as a *veto player* than its Chinese counterpart and only slowly emerging as a *resource supplier*. This comes as a surprise given the authoritarian regime of China compared to the democratic regime of India. It calls for explanations of NOC internationalization other than the notion that political systems shape the interplay of firms and governments in national energy strategies. We argue that *de facto* procedural rules and bureaucratic capacity of NOC governance are more critical in shaping the mode of interaction of firms and states than the *de jure* form of political order.

Our findings are relevant to both theory and policy. First, they show that China and India share a pattern of co-competition in oil sector internationalization—as opposed to a purely state-guided or market-driven internationalization. This advances the debate on hybrid models of capitalism by moving beyond the recognition that both top-down, statist strategies and bottom-up, commercial strategies matter. It specifies the relational dynamics and identifies the roles that the state and NOCs play in various domains. Second, our findings have important implications for the policy debate on the role of emerging consumer countries in global oil markets. It demonstrates that overseas investments by NOCs are increasingly driven by commercial motives. The fact that state intervention comes predominantly in the form of resource supply and occasional vetoes of overseas investments suggests a more reactive and limited role of the home government in internationalization than the notion of a strategic developmental state that leverages NOCs for foreign policy goals—predominant in policy debates—suggests.

The paper proceeds as follows. First, it puts forward propositions about the sources of internationalization of state-owned oil industries. This is followed by a structured comparative case study on the internationalization of the state-owned oil industries of China and India since the early 1990s. We conclude by discussing the implications of our findings for debates on hybrid models of capitalism and on international energy strategies of emerging economies.

## THE STATE, DOMESTIC OIL FIRMS, AND INTERNATIONALIZATION

Why are state-owned oil industries in emerging consumer countries going abroad? What domestic logic is propelling them outward? Three general perspectives have shaped the debate to date. First, a number of scholars view the going abroad strategies of emerging powers as a product of statecraft (Bremmer 2009, Bremmer 2010a). Their analytical perspective is strongly informed by realist thought. Driven by systemic incentives, the state is understood to be shaping international energy strategies depending on its relative material power capabilities (Rose 1998). The argument contends that domestic resources such as state-owned enterprises can be used as tools of statecraft in international politics. The underlying assumption is that authoritarian states hold more control over domestic resources than democratic states (Schneider 1998, Chan, Gabel et al. 2011). While focusing on the external power of the state, this line of thought converges with the notion of the developmental state regarding the internal strength of the state (Evans 1995). The state is understood to be capable to provide strategic guidance for key sectors.

Second, a number of analysts posit that emerging economies are increasingly embedded in the global liberal order of Anglo-Saxon capitalism (Ikenberry 2008, Steinfeld 2010). This perspective suggests that NOCs are becoming more commercially-minded. Governments follow firms more than they lead their internationalization—the state is essentially adopting features of the liberal state of market economies. Historically, the interplay of governments and energy firms in both the US economy and European economies exhibited this pattern. As Abdelal notes with regard to European-Russian energy politics, “[f]irms are, literally, creating these politics, while state leaders are the supporting actors in the drama” (Abdelal 2012, 3). Regarding the case of US oil firm internationalization in the 1940s, Keohane argues that “[s]tate officials had their own purposes, and were not merely the tools of private interests, but they were constrained, step by step, by the political power of the oil companies” (Keohane 1982: 166). Also in France, a significantly more interventionist political economy than the US, the liberalization of the oil industry was very much firm-driven (Hughes 2014).

Third, more recently several scholars have argued that top-down politically-driven elements and bottom-up commercially-driven elements enmesh in the interplay of NOCs and their home governments (de Graaff 2012, Victor, Hulst et al. 2012). For China, a number of analyses of the hybrid nature of China’s oil governance and internationalization

exist (Houser 2008, Kong 2010, Jiang 2014). In a similar vein, McNally (2012, 750) argues that China's variety of capitalism, a "market-liberal form of state capitalism," makes "use of market-oriented rules-based, inter-personal networked, and statist strategies."<sup>1</sup> For India, work on the NOC-government interaction in energy strategies is very limited (Madan 2007, Rai 2014). Our argument advances this line of thought.

## *NOC-Government Coopetition and Internationalization*

We suggest that in the case of energy sector internationalization in China and India "hybridity" manifests itself as "coopetition" between increasingly entrepreneurial NOCs entering global markets and partially supportive and interventionist state actors. Cooperation and competition co-exist in the relationship between NOCs and home governments. Yadong Luo introduced the term to describe the relationship between multinational corporations (MNCs) and host governments. The concept, however, holds descriptive power for the interplay between NOCs and home governments. Cooperation among NOCs and home governments refers to the "mutual accommodation and collaboration, seeking joint payoffs and goal accomplishment from their interdependent activities or resources" (see also Dunning 1998). Competition, instead, relates to "the elements of bargaining or control and related conflicts" (Luo 2004, 432). Importantly, coopetition is not a behavioral pattern on a spectrum between cooperation and competition. Cooperation and conflict rather occur simultaneously given the many different ties NOCs have with various government agencies.

The emergence of coopetition in NOC-home government relations in China and India is a qualitative departure from the previous period of NOC-government relations. Prior to marketization and governance reform, NOCs were tightly integrated into the state apparatus. The interactions between NOCs and their home governments exhibited a greater level of convergence and collaboration. Marketization and governance reform have, however, led to gradual goal differentiation, thus increasing the potential for competition and conflict. At the same time, the two entities are interdependent, which has continued to promote cooperation. Emerging country governments rely on NOCs for revenues, job creation, and energy supply. NOCs, instead, depend on their governments for monopolistic rents, preferential credit, and—to some extent—diplomatic support. As a result, NOCs

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<sup>1</sup> Whereas McNally views the top-down and the bottom-up parts of China's capitalist system as two distinct segments of the economy—state-owned enterprise versus private enterprise, we contend that the very hybridity of the system plays itself out within the state-controlled part of the economy. At times the interests of the state and NOCs align and at times they compete for leverage and influence.

and their home governments selectively cooperate and compete in the process of going abroad. Such cooperation contrasts with the more collaborative business-government relations in the foreign oil policies of liberal states. For instance, Ran Goel describes the relations between the US oil majors and the US government as an “executive-industry bargain,” in which the two parties enable each other in the pursuit of their international goals. He understands the bargain as a “tacit *quid pro quo* agreement” (2004, 479).

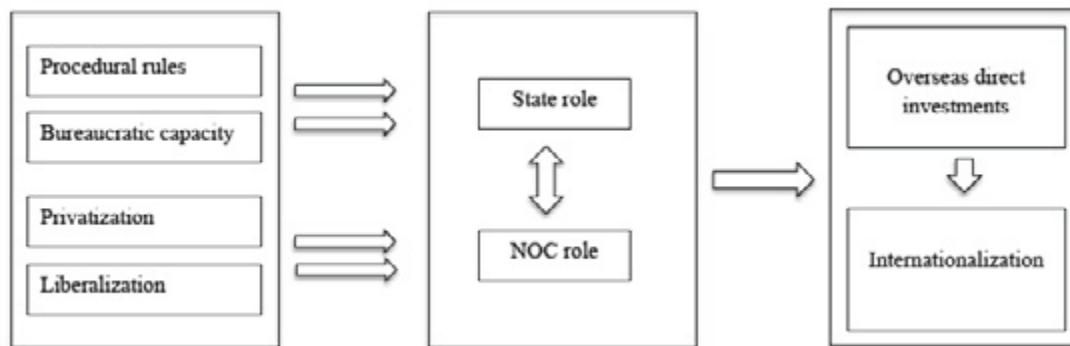
The challenge lies in disentangling the cooperative and conflictual elements in the interplay of commercial and statist strategies in the internationalization of the oil industry (Abdelal 2012). In some ways, the term “hybrid” is a euphemism for “both matters.” Disentangling it allows us to understand the similarities and differences between China and India, which both fall into the broader category of “market-liberal state capitalism” (Witt and Redding 2013). To this end, we focus on the specific roles that NOCs and governments adopt in the going abroad strategies (see also Schmidt 2009).<sup>2</sup>

As regards NOCs, we contend that they are becoming increasingly entrepreneurial, being driven overseas primarily by market incentives. As regards states, we observe that in China and India cooperation mainly takes the form of government supply of resources such as finance to NOCs along with granting greater investment autonomy to NOCs. In this sense, both states assume the role of *resource supplier*. But the role of the state as a resource supplier in these two cases is distinctly different from that of the developmental state. The resource-supplying state provides support in response to demands from NOCs. It is much less a forward-planning and strategically oriented influencer. Competition or conflict manifests itself in the state’s occasional use of its veto power over overseas investments—the state intervenes as a politically-motivated *veto player*. In this, the state displays a combination of elements of a developmental state (resource supply), a liberal state (granting autonomy) and a realist state (veto power). Yet not any one type of state captures the multiple roles of the state. Our notion of cooperation reflects and specifies Howell’s (2006) concept of the “polymorphous state,” which she developed with regard to the Chinese state. While cooperation between increasingly entrepreneurial NOCs and partially supportive and interventionist state actors is prevalent in the internationalization of both Chinese and India NOCs, we observe differences in the extent to which state-NOC interests align or conflict. We will discuss those in detail in section three.

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<sup>2</sup> These roles are understood to be intervening variables between the sources of internationalization—which we will hypothesize below—and the dependent variable of overseas investments, i.e. internationalization. This allows us to identify patterns of internationalization understood as the interplay of NOCs and home governments in making overseas investments.

Figure 1: **Schematic causal chain**



What explains competition in the going abroad of China and India? What accounts for the extent to which NOC-government relations in China and India are cooperative and adversarial with regard to market-led internationalization? As discussed above, the nature of the political system says little about who is in the driving seat of internationalization. We argue that the nature of NOC-government interaction in oil sector internationalization in China and India is the product of how two major transformations in China and India have played out: (1) the marketization of NOCs, and (2) the reform of NOC governance of overseas investments. The former is the source for the role that NOCs assume in internationalization, where the latter presents the source for the specific role of the state. Figure 1—an adaptation from Victor et al.'s (2012) study on NOC governance—schematically outlines the causal chain.

### *The Marketization of NOCs: Privatization and Liberalization*

Over the past two decades, emerging economies have been slowly transforming from command, or highly state-interventionist, economies toward incorporating elements of market economies. This process of marketization is uneven and takes distinct shape in different economies. We argue that marketization represents a domestic source of the going abroad of those industries. It implanted a profit orientation into formerly political organizations and enhanced their capability to invest abroad. Two manifestations of marketization are in particular sources of internationalization: (1) the partial privatization of NOCs, and (2) liberalization.

First, the (partial) privatization of state-owned firms affects their interest and capabilities to become global market players in a number of ways. For instance, listing a firm or a subsidiary on a stock exchange makes it subject to market rules and norms, thus

incentivizing profit orientation. In particular, listings on Western stock exchanges may drive such a dynamic. With regard to China, Edward Steinfeld (2010) has referred to this as “institutional outsourcing,” a key mechanism through which state control over firms in state-capitalist economies is lessened. The idea is that in the course of integrating its national economy with the global economy, China has adopted a number of rules from the West through, for instance, listing parts of its state-owned enterprises on international stock exchanges. The result is that NOCs behave increasingly as commercial entities. Privatizations can also increase the capability of NOCs to invest abroad. In particular, it may grant NOCs easier access to capital, as they can play on private capital markets.

Second, the extent of the liberalization of domestic oil markets—in particular pricing—shapes the ability of NOCs to go abroad. Greater revenues as a result of the lifting of oil price controls equip NOCs with resources for new investments. Also, commercial success in the wake of privatization and domestic market liberalization can translate into greater leverage vis-à-vis the state. As profits increase, state-owned firms contribute more to domestic revenue and employment—their structural power increases. Especially, governments whose legitimacy is built on strong continued economic growth such as in China may be particularly receptive to demands from major firms. Beyond the material effect of economic performance, there are more subtle discursive mechanisms at play. The very fact of economic success may equip managers with more legitimacy in the eyes of policymakers, which may grant them more autonomy and/or access to decisionmakers.

### *NOC Governance Reform: Procedural Rules and Bureaucratic Capacity*

As much as governments in emerging economies have increased the autonomy of state-owned enterprises, they have also retained certain forms of government control or transformed those. We posit that two aspects of NOC governance prove crucial for explaining the different roles the state assumes in internationalization strategies: (1) procedural rules and (2) bureaucratic capacity.

First, states use an array of instruments to direct and incentivize NOC behaviour, including corporate governance, public administration and direct regulation (Mommer 2002, Hults 2012). While we discuss some of these briefly in the cases, the focus is on the role of procedural rules as a source of state intervention in oil industry internationalization. Procedural rules relate to provisions that allow *ex ante* state interference in NOC activities

as opposed to *ex post* monitoring. We see procedural control as a source of veto power for state agencies in the internationalization process.

Second, state agencies may be formally empowered to fulfil certain governments, but may lack capacity individually or collectively to do so. The reform of NOC governance in transition economies has in some instances significantly altered the bureaucratic capacity in NOC governance as, including staff and expertise, and the level of unity or fragmentation of NOC governance. The existence and location of resources shapes what role the state can play—whether it can closely monitor and veto NOC activity and whether it has the capacity to provide support to NOCs. Further, it can be assumed that the more centralized the decision-making authority is, the more coherent is the bureaucracy. Andrew Cortell and James Davis (1996: 454) write, “the state is seen to encompass a host of actors with distinct sets of institutional biases and predispositions that will lead them to favor different foreign policy priorities on any given issue”. This kind of inter-agency and intra-agency conflict over policy preferences in decentralized bureaucracies offers points of entry for lobbying and rent-seeking, diminishing the ability of the state to formulate policy autonomously. It thus shapes how assertive the state can be vis-à-vis NOCs.

Before turning to the case studies, we discuss case selection, data sources and methods. The goal of the paper is to explain the dynamics of NOC-government interaction in the internationalization of state-owned oil industries in emerging economies. China and India display a number of similarities that make them useful cases for a comparative study. The magnitude of the two countries’ current and projected demand for energy makes them highly relevant cases. In 2013, China was the second-largest oil consumer after the United States, while India ranked fourth (EIA 2014). According to the International Energy Agency (2013, 62), China and India are projected to lead global oil demand growth over the next 20 years. A second similarity lies in the fact that China and India both are consumer countries, i.e. net importers, as opposed to producer countries. This suggests that concerns about energy security are shaping policymaker interests in the oil sector. We can thus hold constant a key state goal. Finally, both countries have state-interventionist economies that have been undergoing political and economic reform. By keeping both a major state interest in the oil sector and the general variety of capitalism constant, we can identify the sector-specific institutional factors leading to different ways of how the state engages in NOC expansion. Otherwise, broader factors of state goals and economy-wide/system-wide institutions might mask such granular, sector-specific variables.

Sources of data include primarily policy documents, newspaper articles and 42 interviews



with NOC managers, government officials, energy analysts, and journalists. All of the interviews used in this article were conducted between 2006 and 2015. For the China case, 27 interviews were conducted in China and Africa. For the India case, 15 interviews were conducted in India and the US. Findings from interviews were triangulated either across interviews with interview partners from different organizations or with written primary documentation or secondary sources. The majority of interviews with senior decision-makers were off the record. They have been used to make sense of written documentation in the process of constructing narratives of internationalization and identifying relevant independent variables. Interviews that were on the record are cited in footnotes by the date of the interview. In the following, we examine the patterns of the going abroad of Chinese and Indian NOCs.

## INTERNATIONALIZATION IN CHINA AND INDIA: *NOCs, the State, and Competition*

Five NOCs have been at the forefront of the going abroad process: CNPC (China), ONGC (India), Petrobras (Brazil), Petronas (Malaysia), and Statoil (Norway). In 2008, China's CNPC derived an estimated 12 percent of its working interest production from outside China (Victor, Hults et al. 2012, 918). For India's ONGC, that rate was about 10 percent. Chinese NOCs have so far internationalized at a much larger scale than Indian NOCs. Between 2008 and 2013, they spent USD127 billion on global mergers and acquisitions, compared to USD 10.8 billion of M&A spending by Indian NOCs (PLS 2014).

Both CNPC and ONGC are less pushed out by their home governments than pulled out on global markets by the prospect of commercial success. That process is characterized by competition between the NOCs and their home governments, though it manifests itself differently in the two countries (see table 1).

Table 1: **Cooperation and competition in NOC-government relations**

		Cooperation (state as resource supplier)	
		<i>Low/moderate</i>	<i>High</i>
Competition (state as veto player)	<i>Low</i>		China
	<i>High</i>	India	

In China, NOCs and the government have a predominantly cooperative relationship in that NOCs have greater investment autonomy and the government provides more often financial resources than it uses its veto power. In India, instead, the government has used its veto power over overseas investments more frequently than the Chinese government in cases where international NOC activity conflicts with state goals. More slowly, the government has also assumed a cooperative role by providing diplomatic or sometimes financial resources to NOC internationalization. Simply put, cooperation in NOC internationalization tends to lean more toward cooperation in China, whereas it is more conflictual in India.

### *China: The State as Strong Resource Supplier and Weaker Veto Player*

The going abroad of China's oil industry has been primarily driven by commercially-minded NOCs. The state has followed NOCs in the role of *resource supplier*, stepping in with energy diplomacy and state financing (Goldthau 2009), and only occasionally resorting to its veto power. As a senior CNPC official puts it, "The relationship between the Chinese government and its NOCs is one of love and hatred in that they are mutually interdependent on each other but at the same time have different priorities, which at times work for cross purposes."<sup>3</sup> While cooperation and conflict co-exist, our below description of the NOC-government relationship demonstrates that the cooperative component prevails. Though accounting for only about three per cent of China's gross domestic product, the Chinese oil industry constitutes the backbone of the country's effort to compensate for the shortfall in domestic oil production. It carries out this effort primarily through three major players: CNPC—successor to the country's former Ministry of Petroleum Industry and now Asia's largest oil producer, SINOPEC—formed on the basis of assets from three former ministries (Ministry of Petroleum Industry, Ministry of Petrochemicals, and Ministry of Textiles), and CNOOC—the most internationalized Chinese oil company with primary assets focusing on offshore activities. The internationalization of the Chinese oil industry occurred in three distinct phases.

The period between 1993 and 1999 constituted the first phase, during which China's oil import volume was small and oil prices were low. Thus, oil import dependence was not perceived as a major policy challenge by the government. Yet, the Chinese NOCs were struggling with a number of challenges in domestic production, including aging oil fields,

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<sup>3</sup> Author's interview with senior CNPC official, Beijing, March 17, 2015.

difficulties to replace reserves, increasing debt burdens, high social welfare responsibilities, and artificially suppressed oil prices (Kong 2010: 33-41). In response, CNPC—which accounted for 90 percent of the country’s oil production in the early 1990s—went abroad first. It tested the water by making its first series of cross-border investments in Thailand, Canada, and Peru in 1993. Its early success led to opportunities in other countries, including Venezuela, Papua New Guinea, Sudan, Kazakhstan, which in turn emboldened CNPC to expand elsewhere and enticed its peers—SINOPEC, CNOOC, and Sinochem—to follow suit. CNPC’s engagement in Sudan during this early period exemplifies the rise of the entrepreneurial NOC. After the withdrawal of Chevron from Sudan in 1992, the Sudanese government courted the Chinese government to help develop its oil fields. The Chinese, particularly then President Jiang Zemin, were sceptical and noncommittal. However, Zhou Yongkang, CNPC’s president, was intent to pursue a deal with Sudan and went around the bureaucratic system enlisting the support of Zeng Qinghong, Director of the General Office of the Communist Party and Zhou’s patron. Zeng lobbied the Chinese President in support of CNPC’s ambitions, making a CNPC-Sudan deal happen (Patey 2014: 92-94). During this phase, the Chinese state offered little diplomatic or financial support for Chinese NOCs. In fact, the mainstream view of state bureaucracies placed emphasis on domestic exploration and purchases of oil instead of overseas investment (Xu 2007).

The second phase of the internationalization of China’s oil industry—running from 2000 to 2007—brought the state as *resource supplier* into the game, as China officially formulated its *going abroad* strategy (Taylor 2006, Kong 2010: 29-60). The year 2000 marked the beginning of this phase because it saw China’s oil import double at a time when international oil prices more than tripled in the same year. The combination of import surge and price hike made the Chinese leadership see the country’s dependence on foreign oil as a strategic challenge that could disrupt the Chinese economy. This realization coincided with the timing of the drafting of the country’s 10<sup>th</sup> Five Year Plan (FYP), which allowed the central leadership to identify medium- and long-term challenges facing the country. The 10<sup>th</sup> FYP incorporated the *going out* strategy. Initially formulated by President Zemin, in 1997 as the country’s national development strategy, it was subsequently endorsed by the 16<sup>th</sup> Chinese Communist Party Congress in 2002. While the strategy applies to all sectors in China, it essentially is an endorsement and extension of the activities of the Chinese NOCs, especially CNPC. With blessings from the top CCP leadership, *going out* practiced by the Chinese NOCs has become the central pillar of China’s foreign oil strategy. Henceforth, central and local bureaucracies rolled out specific state initiatives in support of the international expansion of Chinese NOCs. At home, this support takes

the form of decentralizing the oil sector and streamlining the overseas direct investment (ODI) approval processes. Abroad, Beijing started to support its NOCs with active energy diplomacy, which often entails the pursuit of bilateral package deals, that include strategic partnerships, economic assistance, military exchanges, and diplomatic support in the country's interactions with energy producer nations (Kong 2010: 116-140).

While this second phase of internationalization led to the rise of the state as resource supplier, it also demonstrated how NOCs continued to drive overseas investments, occasionally pushing back against state agencies. In 2003, Sinopec outbid its domestic rival CNPC for a pipeline project in Sudan (Liou 2011: 679-683). This surprised CNPC, which had long dominated the oil industry in Sudan and took it for granted that it would win the bid for the project after it had already invested in logistics preparation and personnel training. CNPC appealed to the Chinese Embassy in Sudan for adjudication. The embassy notified the Ministry of Foreign Affairs, which in turn informed the MOFCOM, and the latter authorized the China International Contractor Association to negotiate an agreement between the two oil giants. Instead of withdrawing from its bid, Sinopec, however, defended its strategy on the basis that its withdrawal would lead to enormous losses and thus run counter to the overarching guidelines issued by the State-owned Assets Supervision and Administration Commission (SASAC). These say that state-owned assets are to be preserved and enhanced. Sinopec went ahead and finished the pipeline.

The 2008 global financial crisis marks the beginning of the third phase. Chinese NOCs have since aggressively pursued global mergers and acquisitions (M&As), with frequent government backing. Chinese state financial institutions (SFIs) stepped up their support for the NOCs through the provision of equity financing and cross-border energy-backed loans, which facilitated their increasingly high-profile M&A activity around the world. The heightened activity of SFIs in financing the internationalization of Chinese firms is driven by two primary motivations. First, it is to a large degree a response on the part of the SFIs to the official *going out* strategy of the Chinese government. Second, it takes place against the growing pressure for the Chinese currency to appreciate and the rising concerns about how to preserve and enhance the value of the country's mammoth USD 3-trillion-plus foreign exchange reserves. The 2008 global financial crisis and the ensuing US monetary policy of quantitative easing further intensified concerns in China because they were perceived as a threat to the value of its foreign exchange reserves, the overwhelming majority of which are held in dollar-denominated assets. Against this backdrop, the idea of using the country's foreign exchange reserves to support the implementation of its going out strategy, especially in the resource sector, gained traction. In a public

interview, Zhang Xiaoqiang, Deputy Director of the National Reform and Development Commission (NDRC), summarized the two ways the Chinese government plans to bring its financial wherewithal to bear on its going out strategy: 1) the People's Bank of China, the country's central bank, and the State Administration of Foreign Exchange (SAFE) provide SFIs with more foreign exchanges to support the going out of Chinese firms; and 2) use the country's foreign exchange stockpile to import commodities or acquire equity share overseas under favourable conditions (Chen Hao and Zhang Qian 2011). Two developments presented empirical evidence that the Chinese government executed both of the plans disclosed in the NDRC interview. In January 2013, SAFE created its Co-Financing Office to support SFIs in "serving China's economic growth and going-out strategy" and the Ministry of Commerce confirmed in March 2015 that it instructed state-owned enterprises to increase commodity imports to take advantage of lower global prices.

### *India: The State as Moderate Resource Supplier and Stronger Veto Player*

The internationalization of the state-owned oil industry in India is primarily the result of increasingly entrepreneurial NOCs pulled abroad by commercial reasons and the state encouraging and supporting this activity somewhat (albeit less than the Chinese state), but also exercising its veto power if NOC expansion conflicts with state goals. Thus the pattern of internationalization of Indian NOCs is more conflictual than that of Chinese NOCs as a result of ambiguous state goals regarding NOC expansion. The government has used its veto power in two ways: by blocking the approval of overseas investments before they are made, and by vetoing the withdrawal of an NOC from a host country, forcing the company to remain engaged there. At times, the government has also pushed NOCs abroad for commercial and energy security reasons, supporting NOC investments with diplomatic means.<sup>4</sup> The government generally does not, however, actively use NOCs for foreign policy goals. While the Indian government has a strong bureaucracy that could potentially provide strategic guidance to NOCs, it has opted not to do so. The dual role of the Indian state as both *resource supplier* and *veto player* in the internationalization of the oil sector is reflected by an ambivalent attitude of foreign policymakers toward overseas investments. On the one hand, the presence of NOCs in third countries is seen as a "force multiplier." On the other hand, at times, their presence can create complications and potential conflicts with the state's other international interests.

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<sup>4</sup> Author, Interview with senior MPNG official, New Delhi, July 2007; Author, Interview with Planning Commission official, New Delhi, February 2006; Author, Interview with former senior foreign ministry official, New Delhi, September 2013.

The internationalization of India's oil sector occurred in three phases. Before the early 1990s, India's state-owned oil and gas firms, driven by state priorities, were focused mainly on domestic exploration and production. The state in fact turned down overtures by producing countries interested in having Indian firms involved in their upstream oil and gas sectors. The finance and petroleum ministries believed that India lacked the financial resources and technical know-how to fully exploit any international opportunities. Furthermore, they believed that at a time when India was an aid recipient and short of foreign exchange, spending resources abroad would send the wrong message. The few forays abroad remained limited (Kaul 1991, 194-198). During the 1990s, buoyed by India's economic liberalization, Oil and Natural Gas Corporation Limited (ONGC), the largest state-owned upstream oil and gas producer, expanded its international efforts, albeit with limited success. Through its subsidiary ONGC Videsh Limited (OVL), the firm made investments in Egypt, Tunisia, Vietnam and Yemen. However, most of the projects ran into financial, technical or contractual difficulties (Economic Times 1991, Platt's Oilgram News 1993, Business Line 1995, Dow Jones International News 1997, Schumacher 1997, Goswami 1998a). In this early phase of internationalization, OVL found itself suffering a lack of resources and attention even from its parent company (Business Standard 2003). In addition, almost all international acquisitions were subject to a government approval process that limited OVL's ability to seize opportunities to invest abroad in a timely manner. Restrictions were in place on the amount that the firm could invest abroad, as well as on the countries it could invest in without government approval. Most parts of the state apparatus, however, were preoccupied with domestic economic restructuring and only paid attention to the issue intermittently. Only the Ministry of Petroleum and Natural Gas (MPNG) really supported these international efforts. Seeking an expansion of India's investments abroad, the ministry tried to get the various state-owned oil firms to pool their resources for international projects. These efforts were ultimately unsuccessful (Business World 1996).

In the late 1990s, India's foreign oil and gas strategy entered a new phase, as other state-owned firms including Oil India Limited (OIL), Gas Authority of India Limited (GAIL), Indian Oil Corporation Limited (IOCL) and Hindustan Petroleum Corporation Limited (HPCL) began to take greater interest in exploring opportunities abroad (Platt's Oilgram News 1997). During this period, the state—driven by a desire to improve its firms' performance and pressed by external actors to reform—also increased ONGC's investment autonomy. Also in this period, ONGC started to use energy security arguments to bolster the case for greater autonomy in its international efforts, which the petroleum ministry then also used in the interagency process (Goswami 1997, Dasgupta 1999). The state

soon gave OVL—which remained the most active abroad—a little more leeway in terms of where and how much it could invest; it also constituted a separate board for the firm. While the increased autonomy did not go as far as ONGC wanted (Goswami 1998b), the 1990s represented a phase of a slight loosening of administrative control over overseas investments and of firm activity abroad expanding somewhat.

In the 2000s, rising oil prices and continued reform of NOC governance spurred a period of internationalization. The Indian government eased domestic oil price controls, which meant that upstream firms received payments that more closely reflected international oil prices. Against this backdrop and with state backing, OVL made a major investment in the Russian Sakhalin-I project in 2001. In 2002, OIL and IOCL made a large investment in Iran. The next year, OVL made the first investment by an Indian state-owned firm in a major producing asset in Sudan. Since then, with growing demand for energy in India, more operational autonomy, availability of funds, foreign exchange availability and heightened interest among ministry and NOCs leadership, state-owned oil and gas firms have been operating abroad increasingly. Today, OVL has 33 assets in 16 countries that it values at USD15 billion (ONGC 2014). OIL has assets Bangladesh, Mozambique, Myanmar, Nigeria, Russia, the United States, Venezuela and Yemen. IOCL, too, has multiple assets abroad.

During this period of internationalization, the drive of NOCs to enter global markets and the state's role as an occasional veto player marked a more conflictual period of NOC-government interaction. The NOCs strategically allied with like-minded agencies and the media in the attempt to garner political support for their outward expansion. For example, after OVL lost an opportunity to partner with a firm to operate in the US in the late 1990s, an ONGC official lamented: "Getting permission from our Ministry (Petroleum) itself is a long process. But in this case the files would have to go to the Ministry of External Affairs also... The perceptions of the Ministry of Petroleum and those of the Ministry of External Affairs are usually not the same" (Business Line 1998). Exploiting these inter-agency battles, the NOCs have built coalitions, especially with the petroleum ministry, to lobby for particular projects and policies that other state entities might oppose. They have also allied with the media in shaping the debate on the country's international energy strategy. For instance, the NOCs have tried to generate support for their acquisitions abroad by appealing to key concerns in the general public. These include India's "race" with China (Mukherjee 2009), energy security concerns and India's aspirations to be a major political and commercial power. On another occasion, Indian NOCs have engaged in public "naming-and-blaming" tactics to put pressure on the government to provide greater support



for the companies' internationalization. When OVL lost out to KNOC in Nigeria, for example, company officials publicly (albeit anonymously) blamed the government for not clearing its bid in a timely fashion (The Press Trust of India 2006).

In this period, the state has also stepped in to veto some NOC proposals for investment abroad. In 2005, for example, the government did not allow OVL to raise its bid to acquire producing assets in Ecuador. That same year, the government also blocked OVL from acquiring a stake in a Nigerian field on security grounds. In 2007, the government again dissuaded OVL from bidding on blocks in Nigeria out of security concerns, as well as fear that a new government due to take over in Nigeria might not respect contracts signed by its predecessor (Paul and Pandey 2007). Over the last few years, government intervention has been evident in an additional way. In 2012, OVL wanted to withdraw from a block in the South China Sea off the coast of Vietnam that it had rights to explore. However, the Indian government had a desire to strengthen India's relationship with Vietnam and was concerned about the geopolitical implications of abandoning this block in the South China Sea. As a result, OVL had to stay invested (The Press Trust of India 2012, Bagchi 2013). Such interventions have occurred not just for foreign and security policy reasons but also on commercial or fiscal grounds.

During this most recent period of internationalization, the state has started to also support NOCs to go abroad by granting them more autonomy. The government has provided diplomatic and financial support, albeit the latter at a much smaller scale than the Chinese government. Policymakers have been motivated to do so by growing oil demand in the country and limited domestic supply, as well as by the desire to see its NOCs improve their performance. In supporting NOCs, the state has also played what OVL calls a crucial "catalyzing" role (ONGC 2014). It has become more active on the energy diplomacy front in order to facilitate the acquisition of assets abroad and India's other international energy policies (Singh 2005b). This has been evident in the increasing numbers of official visits, conferences, cooperative agreements, and offers of various kinds of aid to producer countries. It has also been seen in the establishment of an international cooperation division within MPNG and an energy security division within the Ministry of External Affairs (MEA).

To conclude, China and India share government-firm competition in oil sector internationalization. Entrepreneurial NOCs have been internationalizing as a result of challenges in domestic markets, hoping that international markets offered greater profits. Chinese NOCs have been going abroad earlier and more successfully than their Indian

counterparts in terms of both the geographical scope of their expansion and the scale of their overseas investment (Victor, Hults et al. 2012). The Chinese and Indian governments were partially supportive and partially interventionist, though the two governments vary in the extent to which they assumed the two roles. As early as the late 1990s, the Chinese state became a supplier of political and financial resources to NOCs. In contrast, the Indian state reduced its administrative control over NOCs more slowly. It generally has a slightly more conflictual relationship with NOCs than the Chinese government. What explains these similarities and differences in patterns of internationalization?

## MARKETIZATION IN CHINA AND INDIA: *Entrepreneurial NOCs and Global Markets*

The broad trend of marketization—including privatization and domestic market liberalization—has re-shaped oil sectors in both China and India, which explains much of the rise of entrepreneurial NOCs entering global markets.

### *Privatization*

Partial privatization has transformed Chinese NOCs from state bureaucracies into commercially-minded entities and thus altered their identity and behaviour vis-à-vis state agencies. Two key changes have contributed to the transformation of Chinese NOCs from state bureaucracies into commercially-minded entities: the implementation of budget constraints and the listing of subsidiaries on foreign stock exchanges. The Chinese government weaned its NOCs off the national budget, forcing them to become profit-oriented. At the same time, the government stopped collecting dividends from state-owned enterprises. Further, by listing their subsidiaries abroad, Chinese NOCs have to abide by norms, rules, and practices of the U.S. Securities and Exchange Commission (SEC) and the Hong Kong Securities and Futures Commission (SFC), institute a board with independent members beyond the control of the Chinese government, and be responsive to the concerns of foreign stockholders. The remarks by Fu Chengyu, former head of CNOOC and current Chairman and President of Sinopec, provide a testimony to this growing market outlook. When asked about energy security, Mr. Fu noted that energy security is guaranteed only if a nation has world-class oil companies that protect shareholders' interests and beat out international competition (Xuechen 2006). Next to incentivizing profit orientation, the stock listings of NOCs have also increased their ability to raise capital for their outward expansion on private capital markets (Kong 2010: 20-21).

In India, the government's stakes in the state-owned firms have also decreased. The level of state ownership varies between 51 percent (HPCL) and 69 percent (IOCL) (Madan 2006). While OVL is not listed itself, it shares a consolidated account with its parent company ONGC. In a similar way as in China, the listings on stock exchanges have contributed to making the NOCs more profit-oriented and have improved their access to finance for overseas investments. By making the market a constant assessor of their value, this listing has also proved to somewhat deter state intervention. In fact, senior officials at

firms have learned to exploit the state's sensitivity to the potential reaction of the market when pushing for or against certain policies or projects. As the state seeks to dilute further its stakes in some of the NOCs to generate revenue, the firms have also highlighted calls for less state intervention as a way to increase their value. As the majority shareholder, the state cares about the firms' market value and performance. It depends on NOC performance in that they are key to the state's goal of energy security and are a major source of revenue.

## *Liberalization*

While strongly inter-related with the partial privatization of NOCs, the liberalization of domestic oil markets was a distinct, separate cause in both countries that unleashed NOCs. In China, the lifting of price controls for oil provided CNPC with the financial resources to venture into overseas investments. The company saw its revenue more than triple from USD 6 billion to USD 21 billion between 1993 and 1997 (Saywell and Rashid 1998). Beyond the increase in purchasing power, the new-found cash flow enhanced the NOCs' power vis-à-vis the state. In 2010, CNPC, Sinopec, and CNOOC paid total taxes and fees in excess of USD 100 billion to the Chinese government, accounting for 9.1 percent of the Chinese government's total fiscal revenues.<sup>5</sup> As regards employment, the three Chinese NOCs collectively employ 2.6 million people<sup>6</sup>, much more than the People's Liberation Army.

Liberalization and intensifying domestic competition also created incentives for investments abroad. Looking back at the importance of the price liberalization for CNPC, a leading energy expert at the China Institute of Contemporary International Relations sees it as an important milestone in the gradual change of the company's orientation toward global markets: "Considering the cutthroat competition facing CNPC at home in the mid-1990s and its imperative need for preserving and enhancing the value of its huge revenues, expanding overseas was the best way to look for new opportunities and maximize profits."<sup>7</sup>

Similar dynamics unfolded in India in the 1990s and early 2000s. The Indian government eased domestic oil price controls, which meant that upstream firms received payments

<sup>5</sup> Author's calculation based on numbers from the three NOCs' annual reports and the PRC Ministry of Finance.

<sup>6</sup> Author's calculation based on numbers from the three NOCs' annual reports.

<sup>7</sup> Author, interview with a leading energy expert of China Institute of Contemporary International Relations, Beijing, April 25, 2006.

that more closely reflected international oil prices. This played an enabling role for OVLs investments in the 2000s. In addition, domestic oil market liberalization led to the entry of private sector oil firms, increasing competition and profit orientation of Indian NOCs. Marketization in both China and India, thus, led to the rise of entrepreneurial NOCs and more cooperative relations between NOCs and home governments. Why, however, did the emerging pattern of cooperation play out differently in the two countries?

## GOVERNANCE REFORM IN CHINA AND INDIA: *The State Between Resource Supply and Veto Power*

In the 1990s, both China and India reformed the governance of their oil sectors, including the governance of overseas investments. The results of those reforms account for the extent to which the state assumed the role of *resource* supplier and *veto player* respectively in the internationalization of the countries' oil industries.<sup>8</sup> China has seen a significantly greater erosion of procedural control over NOC investments as well as bureaucratic capacity to administer NOCs. By contrast, the Indian government has—despite an overall trend toward loosening control—retained several key levers of state control.

### *Procedural Rules*

Between 1998 and 1999, the Chinese central government reformed the governance of the oil sector. It withdrew from managing petroleum production enterprises and turned all operational decisions to three newly created NOCs: CNPC, SINOPEC, and CNOOC. These were then asked to establish modern corporations, take responsibility for their profits and losses, and embrace competition both at home and abroad. The administrative decentralizations in the oil industry have eliminated procedural control over NOC investments. For instance, prior to 2001, NOCs had to obtain approval from multiple state bureaucracies for foreign investments of USD 1 million or more, including from the State Planning Commission (predecessor of the NDRC), the Ministry of Foreign Trade and Economic Cooperation (now called the Ministry of Commerce, or MOFCOM), the

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<sup>8</sup> While we focus on the differences in governance, oil sector governance in China and India shares a number of similarities. Both states have, for instance, retained a great degree of control over personnel and board appointments.

State Administration of Foreign Exchange (SAFE), and Chinese embassies. However, as China transformed from a capital-scarce to a capital-abundant country, as evidenced by its accumulation of foreign exchange reserves, Beijing has not only gradually relaxed ODI controls but also encouraged ODI flows, not the least for the NOCs. Since May 2014, Chinese NOCs, along with other centrally state-owned enterprises, do not require any approval when investing less than USD 1 billion overseas or not investing in sensitive countries, regions, or sectors. What is more, unlike in the past, Chinese NOCs now have the final say over how they use their overseas profits and are under no obligation to turn in the foreign exchange they earn abroad.

The Indian state has retained a much greater degree of procedural control despite a trend toward greater NOC autonomy. NOCs require approval of foreign acquisitions depending on the size of capital expenditure. The investment amount that requires government approval has been raised over time, giving the firms more flexibility (Saez 2014). This is partly the result of NOCs and the petroleum ministry demanding greater investment autonomy for NOCs (Goswami 1998b). Since 1997, the major oil and gas firms have been designated *navratnas* ('nine precious stones'). The status granted them more financial and operational autonomy than other state-owned firms.<sup>9</sup> This relates to the firms' ability to form joint ventures, strategic alliances, and subsidiaries, the amount of capital expenditure they could incur, and the composition of their board of directors (Department of Public Enterprises India 2005, Art. 1.3). OVL was designated a category-I *miniratna*, which increased the amount the firm can invest without state approval to about USD80 million. The government later designated ONGC and IOCL as *maharatnas* ('crown jewels'). The designation granted them the right to make autonomous investments of up to USD 800 million. A significant driver of this delegation of operational autonomy to NOCs has been the growing pressure from an increasing energy supply-demand gap in India. Policymakers hope that more autonomy will lead to better NOC performance and a greater NOC contribution to closing the resource and revenue gaps.

Yet, given the scale of oil and gas investments, a number of proposals continue to have to run the approval gauntlet of an empowered committee of secretaries, a group of the most senior bureaucrats in relevant ministries, and the cabinet committee on economic affairs (CCEA), an inter-agency committee whose members include the prime minister, the finance minister, the defence minister, the petroleum minister and the power minister. The state, realizing that this process can slow the firms down and make them less competitive, has tried to streamline it. But the approval process remains a key window of state

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<sup>9</sup> Author, Interviews with senior NOC officials, New Delhi, July 2007.

intervention in the internationalization process (The Telegraph 2011, Bureaucracy Today 2012). This approval process is not simply a formality, as the government does use its veto power.

As a result, firms have found their choices and behavior affected not just by the state's energy concerns, but also by fiscal, technical, foreign policy and security considerations and priorities. For instance, the finance and foreign ministries turned down a Venezuelan offer to set up a joint sovereign wealth fund with Indian NOCs to invest in assets in Latin America. The plan was deemed too politically risky (Badrinath and Saikia 2010). The firms have found that they have more leeway when their proposals complement—rather than conflict with—key interests in these other realms (Madan 2011). Overall, however, the Indian NOCs consider the strong procedural control over their foreign investments an obstacle to international expansion. A former ONGC chairman went on the record with complaints about the adverse impact of the lack of autonomy, noting, “The existing powers of OVL are insufficient to acquire even a small-sized property abroad” (Nadkarni 2006, 5).

## *Bureaucratic Capacity*

The differences in procedural governance between India and China align with differences in bureaucratic capacity. In China, we observe a dual development in that the bureaucratic capacity to monitor NOCs has been diminished, while the capacity to provide financial support to NOCs has been expanded. Between 1998 and 1999, the central government reformed the governance of the oil sector. It withdrew from managing petroleum production enterprises and turned all operational decisions to the NOCs. In order to streamline the oil sector, the government eliminated the Ministry of Petroleum Industry and Ministry of the Chemical Industry in 1993 and 1998 respectively, resulting in a fragmented landscape of multiple ministries with authority over NOCs (see also Hung 2008). After the 2008 administrative reform, for example, there are at least ten bureaucracies at the central level that have some authority germane to oil governance (Kong 2006, Kong 2011). The elimination of the line ministry also led to a loss of expertise. Many former oil bureaucrats became top oil industry officials during the decentralization process. In fact, the first generation of CEOs of the “big three” oil firms in China was all former ministers of their corresponding ministries. As a result, the weakened bureaucracy has to frequently defer to top NOC executives. These bureaucrats maintained their bureaucratic rank, which is important for vertical and horizontal bargaining in the hierarchical Chinese

political system (Lieberthal and Oksenberg 1988), their years of experience in crafting and implementing oil policy, and above all their political connections and access to the top political leadership. In fact, as one mid-level CNPC official responsible for foreign affairs explained, thanks to their political clout emanating from their bureaucratic rank and their high positions in the CCP hierarchy, the top executives of the Chinese NOCs often enjoy direct access to China's top leaders. This has enabled them to outcompete some of the agencies in energy governance.<sup>10</sup>

The loss of the line ministries coincided with the rise of the SFIs. They include two wholly state-owned policy-oriented banks—the China Export-Import Bank under the State Council and the China Development Bank under the Ministry of Finance, as well as six state-owned commercial banks controlled by the Ministry of Finance—the Bank of China, the Bank of Construction, the Industrial and Commercial Bank of China, the Bank of Communications, the Bank of Agriculture, and China Everbright Bank. Similar to the NOCs, the six state-owned commercial banks went through a series of restructuring and partial privatization. The partial privatization, their oligopoly in the Chinese financial system, combined with the swelling state coffer conspired to enhance the financial largesse of these SFIs. They have assumed a strong role in the internationalization of NOCs for three reasons. First, as state-owned entities they have to respond to the national strategy of *going abroad*. Second, resource sector investment—especially during the so-called “super commodities boom cycle” of 2000-2008—has generated strong returns. Third, investing abroad helps SFIs to internationalize their portfolio, to reduce the pressure for the Chinese currency to appreciate, and to promote the internationalization of the Chinese Yuan. State financial support played a particularly important role in enabling the Chinese NOCs to expand in the early 1990s before they developed the capability to raise funds from financial markets and helps to explain some of the high-profile cross-border energy deals since the 2008 financial crisis. A leading researcher from the China Development Research Center under the State Council details the role that SFIs have assumed in NOC investments: “The state provides at least three types of support: (1) SASAC, as the majority stakeholder, does not collect dividends from the NOCs’ operations, (2) when NOCs incur losses from overseas operations, they will be covered by state coffers and registered as operational costs of high risk investment; and (3) the SFIs assist the NOCs by providing them with preferential loans.”<sup>11</sup>

In India, the government maintained much greater capacity to directly control NOCs as a

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<sup>10</sup> Author, interview with a mid-level CNPC official responsible for foreign affairs, Beijing, August 3, 2006.

<sup>11</sup> Author, interview with a leading scholar of the China Development Research Center, Beijing, April 26, 2006.



result of incremental governance reform. The country traditionally has had strong bureaucracies with significant influence. However, India shares a high degree of fragmentation of oil sector governance despite having a dedicated petroleum ministry. Political cleavages in oil governance run in particular between the MPNG on the one hand and the Ministry of Finance and the Ministry of External Affairs (MEA) on the other (Kaul 1991, 87). Inter-agency collaboration has, however, allowed the agencies to coordinate to some degree.

As regards the role of the Indian state as a *resource supplier*, it draws much less on financial than diplomatic resources. In particular the capacity of the foreign ministry to conduct energy diplomacy has been beneficial to NOCs. While firm managers would prefer less state intervention on many fronts, this is one area where they would like to see more.<sup>12</sup> A major reason is that the NOCs are operating with financial resources that remain limited relative to those of their competitors—especially Chinese NOCs. Thus, the chairman of OIL, for example, noted, “diplomatic support is very, very crucial as we search for assets overseas” (Kakatey 2010).

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<sup>12</sup> Author, Interview with senior government official, New Delhi, July 2007; Author, Interview with senior NOC official, New Delhi, July 2007.

## CONCLUSION

The going abroad of Chinese and Indian NOCs is neither solely the internationalization of commercial corporations nor the pursuit of state goals by commercial means. Our sector analysis reveals dynamics of cooptation between increasingly entrepreneurial state-owned firms and partially supportive and interventionist home governments at play in two cases of “market-liberal state capitalism” (McNally 2012). We find variations in the extent to which NOC-government relations in China and India are cooperative and adversarial with regard to market-led internationalization. In China, NOCs are pulling to global markets, with the state playing predominantly the role of a *resource supplier*, only occasionally blocking overseas investments. In India, NOCs are pulling abroad, with the state supporting NOCs to some extent diplomatically and financially, but intervening as a *veto player* more often than its Chinese counterpart. The patterns of internationalization can be explained by how processes of marketization and NOC governance reform have been playing out in the two countries.

The marketization of NOCs—i.e. their transformation toward market-driven corporations—has given rise to NOCs being pulled abroad by market incentives, more forcefully so in China than in India. Privatization and domestic market liberalization have strengthened the profit orientation of firms and enhanced their access to capital. As regards NOC governance, the extent to which the Chinese and Indian governments assume the role of *resource supplier* and *veto player* in NOC internationalization roots in different systems of NOC governance and their historical evolution. NOC governance in India has evolved more incrementally, leaving procedural rules and bureaucratic capacities from more state-capitalist times in place. The Indian government can draw on procedural forms of governance and long-standing sector bureaucracies in supervising and sometimes vetoing NOC expansion abroad. The more disruptive reform of oil governance in China has led to the dissolution of key bureaucratic capacities to monitor NOCs on the one hand. However, the restructuring and partial privatization of SFIs, together with the rapid growth of state revenues, has increased the state’s capacity to provide cheap finance to NOCs, thus expanding its role as supplier of resources to NOCs for their outward expansion. Our findings are relevant to both theory and policy.

First, they show that China and India both exhibit a pattern of cooptation in oil sector internationalization, thus unpacking the hybrid nature of NOC internationalization into distinct roles that the state and the NOCs assume in the process. This advances the debate

on the interplay of statist and commercial strategies in “market-liberal state capitalism” more generally (McNally 2012, Ten Brink 2013, Witt and Redding 2013, Saez 2014) and in energy markets more specifically (Abdelal 2012, de Graaff 2012). Importantly, our argument suggests that the analysis of top-down statist and bottom-up corporate decision-making—the predominant conceptual approach in the literature—is too simplistic to understand the evolving nature of state intervention in the two economies. An analytical focus on relational dynamics and roles that the government performs in various domains offers greater insight into the polymorphous state and the nature and extent of its reach.

While China and India share the pattern of NOC-government cooperation in internationalization, as opposed to purely market-driven or state-led internationalization, they also exhibit differences. Variation in bureaucratic rules and capacities—rather than political systems—accounts for these differences. The specific role the state assumes in internationalization rests on the rules and capacities provided by the system of NOC governance. This echoes Victor et al.’s (2012, 909) conclusion on the correlation between NOC performance and democratic versus authoritarian governments: “The type of government matters a lot less than the mechanisms for control.” Bureaucratic rules and capacities are idiosyncratic and shaped by institutional histories. In particular the nature of the governance reform—incremental versus disruptive—has shaped the current bureaucratic rules and capacities: the disruptive reform of NOC governance reform in China has led to a greater departure from the statist governance system than the very incremental reform of oil governance in India. In view of these findings, realist assumptions on strong control of emerging authoritarian powers over NOC expansion seem to falsely equate external strength with internal strength of the state. The Chinese state lacks a strong and coherent bureaucracy in the energy sector that could orchestrate and strategically drive the internationalization of its oil industry as a developmental state would. While India has a strong bureaucracy, the state does not leverage it to provide strategic guidance for the internationalization of NOCs.

Second, our findings have important implications for policy. They demonstrate that overseas investments by NOCs are increasingly driven by commercial motives. This resonates with Victor et al.’s (2012) finding that internationalizing NOCs—which include Petrobras from Brazil, Petronas from Malaysia and Statoil from Norway apart from CNPC and ONGC—display a significant commercial orientation. This suggests early signs of this group of NOCs following the path taken by today’s international oil companies when they first went abroad in the 1940s: “Yet after a series of unsuccessful attempts to implement governmental initiatives, responsibility for maintaining the flow of oil from the Middle

East was placed in the hands of the major international firms, with periodic military and political support from Washington,” (Keohane 1982, 162). What is more, state intervention in China and India comes predominantly in the form of resource supply and occasional vetoes of overseas investments. While the role of the state as resource supplier shows signs of economic nationalism, it also suggests a more reactive and limited role of home governments in internationalization than notions of a strategic developmental state that leverages NOCs for foreign policy goals would suggest. Much state intervention occurs in fact in response to NOC demands. This is not to say that the state’s veto power does not matter. However, there is a significant difference between employing state-owned enterprises proactively in support of foreign policy goals and intervening reactively in overseas investments in the case of interest divergence between governments and NOCs. It remains to be seen if cooptation will be an enduring feature of NOC-government relations in the energy sectors of China and India. It could well prove to be the characteristic feature of a long transition period, in which NOCs and their home governments work toward establishing a new “industry-executive bargain” that exhibits greater goal convergence.

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